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Y Canfor Investments Ltd.



Annual Report 1978

Corporate Data

BOARD OF DIRECTORS

John Gerald Prentice,
*Chairman, Canadian Forest Products Ltd.,
Vancouver, British Columbia*

Alexander Gordon Armstrong,
*Vice President, Finance and Secretary,
Canadian Forest Products Ltd.,
Vancouver, British Columbia*

Harold Clark Bentall,[†]
*Chairman and Chief Executive Officer,
The Dominion Construction Company Limited,
Vancouver, British Columbia*

Leopold Lionel Garrick Bentley,
*Vice Chairman, Canadian Forest Products Ltd.,
Vancouver, British Columbia*

Peter John Gerald Bentley,
*President and Chief Executive Officer,
Canadian Forest Products Ltd.,
Vancouver, British Columbia*

Ronald Laird Cliff,[†]
*Chairman, Inland Natural Gas Co. Ltd.,
Vancouver, British Columbia*

Joseph Bernard Jarvis,
*Director, Canadian Forest Products Ltd.;
Manager, Pacific Sales, Canfor Pulp Sales Ltd.,
Vancouver, British Columbia*

John Ronald Longstaffe,[†]
*Executive Vice President,
Canadian Forest Products Ltd.,
Vancouver, British Columbia*

Peter Paul Saunders,
*Chairman and President,
Versatile Cornt Corporation,
Vancouver, British Columbia*

[†]Members of the Audit Committee.

OFFICERS

John Gerald Prentice,
Chairman of the Board

Leopold Lionel Garrick Bentley,
Vice Chairman

Peter John Gerald Bentley,
President

John Ronald Longstaffe,
Executive Vice President

Alexander Gordon Armstrong,
Secretary-Treasurer

Geoffrey Hart,
Corporate Controller

Richard Frederick Weinman,
Assistant Secretary

HEAD OFFICE

Fifteenth Floor, 505 Burrard Street,
Vancouver, British Columbia V7X 1B5

TRANSFER AGENT AND REGISTRAR

For Preference Shares:
Yorkshire Trust Company,
900 West Pender Street,
Vancouver, British Columbia V6C 1L2
518-5th Avenue S.W.,
Calgary, Alberta T2P 0L9

For Common Shares:
Fifteenth Floor, 505 Burrard Street,
Vancouver, British Columbia V7X 1B5

STOCK EXCHANGE LISTINGS

Preference Shares Only: Vancouver

BANKERS

Bank of Montreal

SOLICITORS

Lawson, Lundell, Lawson & McIntosh
Vancouver, British Columbia

AUDITORS

Price Waterhouse & Co.,
Vancouver, British Columbia

DIVIDEND PAYMENTS ON PREFERENCE SHARES

Dividends in the amount of 27½ cents per
preference share are payable semi-annually on
the last days of April and October in each year.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on
May 10, 1979. Shareholders of the Company
owning preference shares in the capital of the
Company do not have the right to attend or vote
at the meeting.

Directors' report to the members

We are pleased to present to the members of Canfor Investments Ltd. (the 'Company') this fourth annual report covering the twelve months ended December 31, 1978. The Company's net earnings for this period were \$7,953,000 compared to \$10,857,000 for 1977. The decline in earnings, which was brought about by lower earnings of the Joint Venture Companies, was referred to when describing the 1978 outlook in our last annual report. The lower earnings from pulp and paper more than offset the improved results achieved by the Company's other holdings.

Two changes have taken place in the Company's direct investments since the last annual report. In May, 1978, an additional 5,383 shares of Yorkshire Trust Company were acquired for \$192,000 cash, thereby increasing the Company's equity interest in Yorkshire to 49.5% from 47.0%.

During January, 1979, in response to an offer by a third party, the Company disposed of its entire holding of 44,177 common shares in Credit Foncier Franco-Canadien at a price equivalent to \$140 per share for a total of \$6,184,780; the book value of this investment, at cost, was \$4,225,000 or \$95.64 per share. The disposal of these shares did not impair the asset coverage requirements for the preference shares as set forth in the prospectus for these shares.

Versatile Cornat Corporation

As part of an ongoing program of consolidation and increased emphasis on manufacturing, various changes were made in the Versatile Cornat companies during 1978, beginning with the formation of Versatile Cornat Corporation on July 1, 1978 by the amalgamation of Cornat Industries Limited and Versatile Manufacturing Ltd. Canfor Investments' equity participation was not changed as a direct result of this amalgamation, but if the warrants issued in connection with the amalgamation are all exercised during their five year life, the Company's equity participation in Versatile Cornat Corporation will be reduced to 41.27%, compared to 48.5% prior to amalgamation.

Consolidated 1978 net earnings of Versatile Cornat were \$9,297,000, representing an increase of 65%

over 1977 earnings of \$5,642,000, and the Company's equity share of these earnings increased to \$4,560,000 in 1978 versus \$2,736,000 in 1977. Consolidated 1978 revenues increased 24% over 1977 levels to \$304,242,000. Versatile Cornat's dividend for the final quarter of 1978 was increased from 8 cents per share to 10 cents per share.

Bralorne Resources Limited contributed significantly to Versatile Cornat's improved 1978 results, owing to the strong performance of its Texas operations and to the favourable impact made by its domestic and offshore service units and by increased Alberta gas shipments at a higher wellhead price.

Versatile Manufacturing Company also made a notable contribution to the above results because of a general upswing in farm equipment markets and improvements in manufacturing and administration. Other 1978 achievements by Versatile Manufacturing included the completion of a successful first year by its Australian marketing subsidiary, an expanded North American market share and dealer network, a broadened and upgraded product line, and consolidation of all manufacturing activities in Winnipeg.

Versatile Cornat's activities in the areas of shipbuilding and ship repair, and warehousing and cold storage proceeded in a generally satisfactory manner during 1978. Noteworthy achievements included sizable new shipyard contracts and increased cold storage revenues and capacity.

Other 1978 developments in Versatile Cornat included an increase in its equity in Bralorne

continued on page 2...



Her Excellency, Mrs. Edward R. Schreyer, wife of the Governor General, tours the wheelhouse of the Canadian Coast Guard Service's icebreaker "Franklin" after officially naming the vessel. It is the second ship of its type built by Burrard Yarrows Corporation.

Resources Limited at mid-year to 59.6% from 50.3%, and disposition of its 50% interest in Johnston Terminals and Storage Ltd. in October. During the year, Versatile Cornat began to alter the thrust of its financial subsidiaries to emphasize services to Versatile Manufacturing farm equipment dealers and customers. In early 1979, therefore, the financial subsidiaries have sold or are negotiating the sale of a substantial portion of their investments in mortgages, properties and leases for amounts approximating book value. Finally, in January, 1979, the two shipyard companies were amalgamated into Burrard Yarrows Corporation to reflect the way they had been operating for some time, and the companies involved in warehousing, cold storage and light manufacturing were amalgamated to form Versatile Cornat Industries Limited.

The 1979 outlook for Versatile Cornat is generally favourable. Although the adverse influences of inflation are still present, it would appear that most of the past downward economic trends affecting this company are easing. Further, a continued low value of the Canadian dollar will enhance its export position. Agricultural equipment sales forecasts are favourable and the shipyard business outlook for Burrard Yarrows Corporation is relatively strong.

Joint Venture Companies

The Joint Venture Companies include Prince George Pulp and Paper Limited and Intercontinental Pulp Company Ltd., whose bleached kraft pulp and sack kraft paper mills are located in Prince George, British Columbia, and Takla Forest Products Limited, a company indirectly owned by Prince George and Intercontinental, which produces dimension lumber, studs, veneer, and pulp chips at a number of locations in the north central Interior of British Columbia. An affiliated company, B.C. Chemicals Ltd., of which Prince George and Intercontinental each owns 25%, manufactures sodium chlorate and crude tall oil at a plant near the pulp and paper mills.

Net earnings by Prince George totalled \$2,950,000 in 1978, down significantly from 1977 net earnings of \$6,954,000. Intercontinental's 1978 net earnings of \$3,396,000 were also down significantly from the 1977 level of \$10,824,000. Revenues during 1978 were \$72,873,000 for Prince George, representing an increase of 16% and \$58,225,000 for

Intercontinental, a decrease of 11%. The Company's equity share in the 1978 net earnings of the Joint Ventures amounted to \$1,475,000 from Prince George and \$1,273,000 from Intercontinental. Dividends of \$1,125,000 were paid to the Company by Intercontinental during 1978.

Takla's net earnings in 1978 were \$4,840,000 on revenues of \$48,226,000 versus \$6,242,000 and \$36,689,000 respectively in 1977. These earnings are included in the results of Prince George and Intercontinental on the equity basis. Earnings in 1977 reflect an income tax reduction of \$2,725,000 resulting from the application of prior years' losses. Had it not been for this extraordinary item in 1977, Takla's 1978 earnings would have represented a 38% increase over those for 1977.

B.C. Chemicals experienced record sales and production levels in 1978 and earnings increased by 42% from 1977.

The weak pulp and paper markets for most of 1978 combined with some production curtailments adversely affected 1978 earnings of the Joint Ventures. However, Takla's earnings on wood products were somewhat better than anticipated as both the market and the lower Canadian dollar assisted results.

During the latter stages of 1978 the pulp market entered a more rapid recovery phase than one could have reasonably expected and the large surplus world inventories have been reduced to normal levels. As a result, the outlook for 1979 earnings for the Joint Ventures is considerably better as prices for both pulp and paper have improved. On the wood products side, however, the increase in minimum stumpage and the elimination of maximum stumpage, combined with a probable downturn in lumber prices will adversely affect Takla during 1979.

The realization of this potential improvement for the Joint Ventures is of course contingent upon a satisfactory conclusion of the 1979 labour negotiations in the forest industry.

AR19

Canfor Investments Ltd.

Interim report for
the six months
ended June 30, 1978

Canfor



Canfor Investments Ltd.

affiliated with Canadian Forest Products Ltd.

Fifteenth Floor / 505 Burrard St. Vancouver B.C. V7X 1B5

preference shares in the open market at prices not exceeding \$5 per share plus accrued and unpaid

President's Report to the Members

I am pleased to submit the accompanying financial statements of Canfor Investments Ltd. (the "Company") for the six months ended June 30, 1978. Net earnings for the period were \$4,419,000 compared to \$6,211,000 for the first six months of 1977.

In view of my outlook comments in last year's interim report, upon which I elaborated in the 1977 annual report, this significant decline in earnings should come as no surprise to you. The decline is directly attributable to the Joint Venture Companies, the results of which were adversely affected by the poor markets for pulp and paper. Because of the product mix of the companies, which is weighted more heavily toward pulp and paper, these adverse effects were not offset by the relatively strong performance of lumber products. Nor were they offset by the benefits derived from the discounted Canadian dollar.

On the favourable side, the earnings of Cornat for the first half of 1978 increased significantly from last year. Also, Yorkshire Trust continued to perform well, with year-to-date earnings improved appreciably over last year's, and the performance of Credit Foncier remained satisfactory.

During the first half, there was a change in the direct investment holdings of the Company. In May, 1978, the Company acquired an additional 5,383 shares of Yorkshire Trust Company for \$192,000 cash, thus increasing the Company's fully diluted equity interest in Yorkshire from 46.3% to 48.8%.

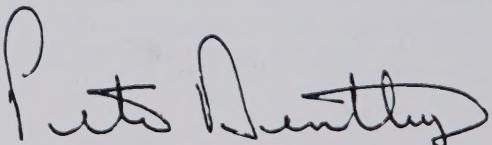
Since the completion of the first half, the shareholders of Cornat Industries Limited and Versatile Manufacturing Ltd. approved the amalgamation of their respective companies, and the two companies are now operating as one organization known as Versatile Cornat Corporation. Your Company's equity participation presently remains unchanged at 48.5%. However, detachable warrants were issued to the former Versatile shareholders and, if all the outstanding warrants were to be exercised during their five-year life, your Company's participation in Versatile Cornat would be diluted to 41.4%

Regarding another event subsequent to the completion of the first half, I am pleased to advise you that Canadian Forest Products Ltd. (CFP) has reached agreement in principle to acquire for \$60 million the entire interests of Reed Paper Ltd. and Reed Ltd. in the Joint Venture Companies. Subject to approval by government and financing bodies, this acquisition will be completed prior to the end of 1978 and CFP, together with Canfor Investments, will then own 100% of Prince George Pulp and Paper, 75% of Intercontinental Pulp and, indirectly, 87.5% of Takla Forest Products. This major acquisition by CFP basically parallels your Company's investment in the Joint Ventures and is indicative of CFP's confidence in the future of these companies.

While I had expressed considerable caution both one year ago and again in the 1977 annual report, it is a pleasant task for me to indicate at this time that as a result of continuing improvement in Bralorne (in which Cornat's participation has been increased recently), the benefits of the stronger company emerging from the amalgamation of Versatile and Cornat, and a general improvement in the pulp and paper outlook, we should reasonably anticipate an improved earnings performance, although most of these benefits will not be derived in a significant way before 1979. On the negative side, some fall-off in wood products is expected. Because of the product mix of the Joint Venture Companies, however, any erosion in wood products profitability will be more than offset by the improvement in the pulp and paper sector.

The Company's next semi-annual dividend of 27.5 cents per 11% preference share of \$5.00 par value each will be paid on October 31, 1978.

On behalf of the Board



P.J.G. Bentley,
President
August 8, 1978

Canfor Investments Ltd.

STATEMENT OF EARNINGS

For the Six Months Ended June 30, 1978 and 1977
(Unaudited)

	1978	1977
Equity in after-tax earnings before extraordinary items:		
Cornat Industries Limited	\$2,176,000	\$1,345,000
Prince George Pulp and Paper Limited	1,461,000	2,141,000
Intercontinental Pulp Company Ltd.	329,000	1,988,000
Yorkshire Trust Company	247,000	195,000
	<u>4,213,000</u>	<u>5,669,000</u>
Other investment income	218,000	206,000
	<u>4,431,000</u>	<u>5,875,000</u>
Deduct: administrative expenses	12,000	21,000
Net earnings before extraordinary items	<u>4,419,000</u>	<u>5,854,000</u>
Extraordinary items:		
Equity in extraordinary items of Joint Venture Companies resulting from the application of losses of prior years		357,000
Net earnings	<u>4,419,000</u>	<u>6,211,000</u>
Earnings per common share, after reflection of preference share dividend accrual:		
Before extraordinary items	<u>4.22</u>	<u>5.64</u>
After extraordinary items	<u>4.22</u>	<u>5.99</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months Ended June 30, 1978 and 1977
(Unaudited)

	1978	1977
SOURCE OF WORKING CAPITAL:		
Net earnings before extraordinary items	\$4,419,000	\$5,854,000
Less: Equity income from equity investments	4,213,000	5,669,000
	<u>206,000</u>	<u>185,000</u>
Dividends from equity investments	458,000	1,705,000
	<u>664,000</u>	<u>1,890,000</u>
APPLICATION OF WORKING CAPITAL:		
Investment in Yorkshire Trust Company	192,000	
Dividends paid: preference shares	138,000	138,000
common shares	325,000	5,093,000
	<u>655,000</u>	<u>5,231,000</u>
Resulting in a working capital increase (decrease) of	9,000	(3,341,000)
Working capital at beginning of period	<u>411,000</u>	<u>5,013,000</u>
Working capital at end of period	<u>\$ 420,000</u>	<u>\$1,672,000</u>

Approved by the Board

Pete Bentley *J. R. L. - 1-11-2*
Director Director

dividends and costs of purchase. To date, no purchases have been made by the Company because, once again during 1978, the shares have consistently traded at prices above the \$5 per share level.

Payments of Dividends

Having maintained the Dividend Reserve Fund at the amount of \$412,500 to provide for the payment of dividends on preference shares, the Company declared and paid during 1978 dividends totalling \$1.827 per common share to Canadian Forest Products Ltd., which company owns 100% of the issued common shares of Canfor Investments.

Board of Directors

Clark Bentall is not standing for re-election as a director of the Company; we thank Mr. Bentall for his valued counsel while a director of Canfor Investments. Colin A.C. Dobell, Vice President and Director, Wood Gundy Limited, has been nominated to fill the vacancy on the board.

Some Words of Appreciation

As an investment company, the earnings of Canfor Investments depend almost exclusively on the results achieved by those companies in which it has invested. Accordingly, we recognize with great appreciation the efforts and progress made during 1978 by the employees of Versatile Cornat, the Joint Venture Companies, Yorkshire Trust and Credit Foncier.

On behalf of the directors,

Pete Bentley

P.J.G. Bentley,
President
April 10, 1979
Vancouver, British Columbia

President's Report to the Members

I am pleased to submit the accompanying financial statements of Canfor Investments Ltd. (the "Company") for the six months ended June 30, 1978. Net earnings for the period were \$4,419,000 compared to \$6,211,000 for the first six months of 1977.

In view of my outlook comments in last year's interim report, upon which I elaborated in the 1977 annual report, this significant decline in earnings should come as no surprise to you. The decline is directly attributable to the Joint Venture Companies, the results of which were adversely affected by the poor markets for pulp and paper. Because of the product mix of the companies, which is weighted more heavily toward pulp and paper, these adverse effects were not offset by the relatively strong performance of lumber products. Nor were they offset by the benefits derived from the discounted Canadian dollar.

On the favourable side, the earnings of Cornat for the first half of 1978 increased significantly from last year. Also, Yorkshire Trust continued to perform well, with year-to-date earnings improved appreciably over last year's, and the performance of Credit Foncier remained satisfactory.

During the first half, there was a change in the direct investment holdings of the Company. In May, 1978, the Company acquired an additional 5,383 shares of Yorkshire Trust Company for \$192,000 cash, thus increasing the Company's fully diluted equity interest in Yorkshire from 46.3% to 48.8%.

Since the completion of the first half, the shareholders of Cornat Industries Limited and Versatile Manufacturing Ltd. approved the amalgamation of their respective companies, and the two companies are now operating as one organization known as Versatile Cornat Corporation. Your Company's equity participation presently remains unchanged at 48.5%. However, detachable warrants were issued to the former Versatile shareholders and, if all the outstanding warrants were to be exercised during their five-year life, your Company's participation in Versatile Cornat would be diluted to 41.4%

We are pleased to report that the acquisition for \$60 million by CFP Investments Ltd., a wholly-owned subsidiary of Canadian Forest Products Ltd., of the entire interests of Reed Paper Ltd. and Reed Ltd. in the Joint Venture Companies was completed on November 30. The Company, together with CFP Investments Ltd., now owns 100% of Prince George, 75% of Intercontinental and, indirectly, 87.5% of Takla.

Yorkshire Trust Company

Yorkshire Trust Company experienced an active and successful year in 1978, realizing net earnings of \$1,042,000 on revenues of \$17,307,000 during the twelve months ended December 31, 1978, compared to \$1,004,000 on revenues of \$14,887,000 during 1977. The Company's equity in Yorkshire's earnings was \$435,000 in 1978, up from \$395,000 in 1977, reflecting in part the additional shares acquired in the first half of 1978.

Yorkshire's 1978 earnings were restrained by the narrower interest rate spread that resulted from increasing short term interest rates and strong competition for mortgages. This situation is expected to continue into 1979 and Yorkshire plans to stress efficiency, increased market share and new products in order to achieve successful operations and further growth during the coming year.

Credit Foncier Franco-Canadien

As noted previously, the Company sold its interest in Credit Foncier in early 1979 and the gain on this disposal will be reflected in the Company's 1979 earnings. The disposal will not have a major impact on earnings after 1979 since the investment in Credit Foncier was accounted for on the cost basis whereby only dividends received are recognized as income. In 1978, these dividends amounted to \$202,000.

Purchase of Preference Shares

The terms of the preference share issue require the Company to purchase, if available, in each calendar year commencing with 1976, up to 25,000 preference shares in the open market at prices not exceeding \$5 per share plus accrued and unpaid

dividends and costs of purchase. To date, no purchases have been made by the Company because, once again during 1978, the shares have consistently traded at prices above the \$5 per share level.

Payments of Dividends

Having maintained the Dividend Reserve Fund at the amount of \$412,500 to provide for the payment of dividends on preference shares, the Company declared and paid during 1978 dividends totalling \$1.827 per common share to Canadian Forest Products Ltd., which company owns 100% of the issued common shares of Canfor Investments.

Board of Directors

Clark Bentall is not standing for re-election as a director of the Company; we thank Mr. Bentall for his valued counsel while a director of Canfor Investments. Colin A.C. Dobell, Vice President and Director, Wood Gundy Limited, has been nominated to fill the vacancy on the board.

Some Words of Appreciation

As an investment company, the earnings of Canfor Investments depend almost exclusively on the results achieved by those companies in which it has invested. Accordingly, we recognize with great appreciation the efforts and progress made during 1978 by the employees of Versatile Cornat, the Joint Venture Companies, Yorkshire Trust and Credit Foncier.

On behalf of the directors,



P.J.G. Bentley,
President
April 10, 1979
Vancouver, British Columbia

Canfor Investments Ltd.

STATEMENT OF EARNINGS

for the years ended December 31

	1978	1977
Equity in earnings (see schedule):		
Versatile Cornat Corporation	\$ 4,560,000	\$ 2,736,000
Prince George Pulp and Paper Limited	1,475,000	3,477,000
Intercontinental Pulp Company Ltd.	1,273,000	4,058,000
Yorkshire Trust Company	<u>435,000</u>	<u>395,000</u>
	<u>\$ 7,743,000</u>	<u>\$10,666,000</u>
Other investment income	<u>235,000</u>	<u>220,000</u>
	<u>7,978,000</u>	<u>10,886,000</u>
Deduct: administrative expenses	<u>25,000</u>	<u>29,000</u>
Net earnings	<u>\$ 7,953,000</u>	<u>\$10,857,000</u>
Earnings per common share - after reflection of preference share dividend accrual (Note 5)	<u>\$7.58</u>	<u>\$10.44</u>

STATEMENT OF RETAINED EARNINGS

for the years ended December 31

	1978	1977
Balance, beginning of year	\$ 6,431,000	\$ 2,529,000
Net earnings	<u>7,953,000</u>	<u>10,857,000</u>
	<u>14,384,000</u>	<u>13,386,000</u>
Less:		
Dividends paid:		
Preference shares	275,000	275,000
Common shares	<u>1,852,000</u>	<u>6,680,000</u>
	<u>2,127,000</u>	<u>6,955,000</u>
Balance, end of year	<u>\$12,257,000</u>	<u>\$ 6,431,000</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the years ended December 31

	1978	1977
Source of Working Capital:		
Net earnings	\$ 7,953,000	\$ 10,857,000
Less: Earnings from equity investments (Note 2(a))	<u>7,743,000</u>	<u>10,666,000</u>
	210,000	191,000
Dividends from equity investments (Note 2(a))	<u>2,101,000</u>	<u>2,162,000</u>
	<u>2,311,000</u>	<u>2,353,000</u>
Application of working capital:		
Additional investment in Yorkshire Trust Company	192,000	—
Dividends paid:		
Preference shares	275,000	275,000
/ Common shares	<u>1,852,000</u>	<u>6,680,000</u>
	<u>2,319,000</u>	<u>6,955,000</u>
Resulting in a working capital decrease of	<u>\$ 8,000</u>	<u>\$ 4,602,000</u>

SUMMARY OF CHANGES IN WORKING CAPITAL

	1978	1977	(Increase) Decrease
Current Assets	\$ 414,000	\$ 419,000	\$ 5,000
Current Liabilities	<u>11,000</u>	<u>8,000</u>	<u>(3,000)</u>
Working Capital	<u>\$ 403,000</u>	<u>\$ 411,000</u>	<u>\$ 8,000</u>

Canfor Investments Ltd.

BALANCE SHEET

as at December 31

	1978	1977
ASSETS		
Current Assets		
Cash	\$ —	\$ 2,000
Temporary investments, representing preference share dividend reserve fund, at cost which approximates market value (Note 3)	413,000	413,000
Interest receivable	1,000	4,000
	<u>414,000</u>	<u>419,000</u>
Investments		
At equity (Schedule to Financial Statements and Note 2)		
Versatile Cornat Corporation (Note 4)	25,446,000	21,766,000
Prince George Pulp and Paper Limited (Note 5)	8,488,000	7,013,000
Intercontinental Pulp Company Ltd. (Note 5)	7,185,000	7,037,000
Yorkshire Trust Company (Note 6)	4,425,000	3,894,000
At cost		
Credit Foncier Franco-Canadien (Market value \$5,876,000, 1977 \$3,313,000) (Note 10)	<u>4,225,000</u>	<u>4,225,000</u>
	<u>49,769,000</u>	<u>43,935,000</u>
	<u><u>\$50,183,000</u></u>	<u><u>\$44,354,000</u></u>

Approved by the Board


Paul Anthony
Director


J. R. Smith

Director

	1978	1977
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 11,000	\$ 8,000
Shareholders' Equity		
Share capital (Note 7)		
11% cumulative, redeemable preference shares \$5 par value; authorized and outstanding 500,000 shares	2,500,000	2,500,000
Common shares without par value; authorized 3,000,000 shares; outstanding 1,013,425 shares	<u>35,415,000</u>	<u>35,415,000</u>
/ Retained earnings	<u>37,915,000</u>	<u>37,915,000</u>
	<u>12,257,000</u>	<u>6,431,000</u>
	<u>50,172,000</u>	<u>44,346,000</u>
	<u><u>\$50,183,000</u></u>	<u><u>\$44,354,000</u></u>

Canfor Investments Ltd.

SCHEDULE OF EQUITY INVESTMENTS as at December 31

	Versatile Cornat Corporation	
	1978 (Notes 2 & 4)	1977 (Note 4)
Percentage of Outstanding Common Shares Held by the Company (on a share issue basis)	<u>48.72</u>	<u>48.5</u>
Results for the Year:		
Revenues	<u>\$304,242,000</u>	<u>\$245,392,000</u>
Earnings		
Earnings before income taxes, including equity share of net earnings of affiliates	<u>\$ 31,142,000</u>	<u>\$ 23,061,000</u>
Income taxes	<u>13,544,000</u>	<u>11,097,000</u>
Earnings before minority interests	<u>17,598,000</u>	<u>11,964,000</u>
Provision for minority interests (including preference dividends)	<u>8,301,000</u>	<u>6,322,000</u>
Net earnings	<u>\$ 9,297,000</u>	<u>\$ 5,642,000</u>
Equity share of net earnings	<u>\$ 4,560,000</u>	<u>\$ 2,736,000</u>
Carrying value of investments:		
Shares at cost to the Company	<u>\$ 16,727,000</u>	<u>\$16,727,000</u>
Equity share of earnings since acquisition	<u>11,425,000</u>	<u>6,865,000</u>
Less: dividends received since acquisition	<u>28,152,000</u>	<u>23,592,000</u>
Carrying value of investments	<u>2,706,000</u>	<u>1,826,000</u>
	<u>\$ 25,446,000</u>	<u>\$ 21,766,000</u>
Summary of financial statements:		
Financial position as at December 31,		
Current assets	<u>\$133,360,000</u>	<u>\$131,681,000</u>
Current liabilities	<u>66,672,000</u>	<u>72,752,000</u>
Working capital	<u>66,688,000</u>	<u>58,929,000</u>
Property, plant and equipment, net book value	<u>65,747,000</u>	<u>61,304,000</u>
Investments of guaranteed investment fund	<u>—</u>	<u>—</u>
Other assets	<u>24,496,000</u>	<u>30,690,000</u>
Liabilities of guaranteed investment fund	<u>—</u>	<u>—</u>
Long term liabilities	<u>(83,388,000)</u>	<u>(111,642,000)</u>
Net assets	<u>\$ 73,543,000</u>	<u>\$ 39,281,000</u>
Represented by:		
Share capital and contributed surplus	<u>\$ 40,987,000</u>	<u>\$ 13,477,000</u>
Retained earnings	<u>32,556,000</u>	<u>25,804,000</u>
Shareholders' equity	<u>\$ 73,543,000</u>	<u>\$ 39,281,000</u>

**Prince George Pulp
and Paper Limited**

1978 (Note 5)	1977 (Note 5)
<u>50</u>	<u>50</u>

<u>\$ 72,873,000</u>	<u>\$ 62,859,000</u>
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**Intercontinental Pulp
Company Ltd.**

1978 (Note 5)	1977 (Note 5)
<u>37.5</u>	<u>37.5</u>

<u>\$ 58,225,000</u>	<u>\$ 65,462,000</u>
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**Yorkshire Trust
Company (Unaudited)**

1978 (Notes 2 & 6)	1977 (Note 6)
<u>49.5</u>	<u>46.3</u>

<u>\$ 17,307,000</u>	<u>\$ 14,887,000</u>
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<u>\$ 3,132,000</u>	<u>\$ 9,161,000</u>
<u>182,000</u>	<u>2,207,000</u>
<u>2,950,000</u>	<u>6,954,000</u>
<u>—</u>	<u>—</u>
<u>\$ 2,950,000</u>	<u>\$ 6,954,000</u>
<u>\$ 1,475,000</u>	<u>\$ 3,477,000</u>

<u>\$ 4,063,000</u>	<u>\$ 16,955,000</u>
<u>667,000</u>	<u>6,131,000</u>
<u>3,396,000</u>	<u>10,824,000</u>
<u>—</u>	<u>—</u>
<u>\$ 3,396,000</u>	<u>\$ 10,824,000</u>
<u>\$ 1,273,000</u>	<u>4,058,000</u>

<u>\$ 2,078,000</u>	<u>\$ 2,094,000</u>
<u>888,000</u>	<u>1,053,000</u>
<u>1,190,000</u>	<u>1,041,000</u>
<u>148,000</u>	<u>37,000</u>
<u>\$ 1,042,000</u>	<u>\$ 1,004,000</u>
<u>\$ 435,000</u>	<u>\$ 395,000</u>

<u>\$ 9,158,000</u>	<u>\$ 9,158,000</u>
<u>10,580,000</u>	<u>9,105,000</u>
<u>19,738,000</u>	<u>18,263,000</u>
<u>11,250,000</u>	<u>11,250,000</u>
<u>\$ 8,488,000</u>	<u>\$ 7,013,000</u>

<u>\$ 4,834,000</u>	<u>\$ 4,834,000</u>
<u>10,076,000</u>	<u>8,803,000</u>
<u>14,910,000</u>	<u>13,637,000</u>
<u>7,725,000</u>	<u>6,600,000</u>
<u>\$ 7,185,000</u>	<u>\$ 7,037,000</u>

<u>\$ 3,667,000</u>	<u>\$ 3,475,000</u>
<u>976,000</u>	<u>541,000</u>
<u>4,643,000</u>	<u>4,016,000</u>
<u>218,000</u>	<u>122,000</u>
<u>\$ 4,425,000</u>	<u>\$ 3,894,000</u>

<u>\$ 25,213,000</u>	<u>\$ 31,016,000</u>
<u>25,236,000</u>	<u>29,504,000</u>
<u>(23,000)</u>	<u>1,512,000</u>
<u>57,781,000</u>	<u>59,180,000</u>
<u>—</u>	<u>—</u>
<u>12,899,000</u>	<u>10,539,000</u>
<u>—</u>	<u>—</u>
<u>(53,683,000)</u>	<u>(57,207,000)</u>
<u>\$ 16,974,000</u>	<u>\$ 14,024,000</u>

<u>\$ 19,742,000</u>	<u>\$ 18,663,000</u>
<u>17,050,000</u>	<u>12,052,000</u>
<u>2,692,000</u>	<u>6,611,000</u>
<u>53,787,000</u>	<u>54,717,000</u>
<u>—</u>	<u>—</u>
<u>12,610,000</u>	<u>10,274,000</u>
<u>—</u>	<u>—</u>
<u>(49,923,000)</u>	<u>(52,832,000)</u>
<u>\$ 19,166,000</u>	<u>\$ 18,770,000</u>

<u>\$ 8,976,000</u>	<u>\$ 8,559,000</u>
<u>427,000</u>	<u>836,000</u>
<u>8,549,000</u>	<u>7,723,000</u>
<u>1,029,000</u>	<u>796,000</u>
<u>148,987,000</u>	<u>125,487,000</u>
<u>7,000</u>	<u>172,000</u>
<u>(148,987,000)</u>	<u>(125,487,000)</u>
<u>(1,178,000)</u>	<u>(1,195,000)</u>
<u>\$ 8,407,000</u>	<u>\$ 7,496,000</u>

<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>
<u>6,974,000</u>	<u>4,024,000</u>
<u>\$ 16,974,000</u>	<u>\$ 14,024,000</u>

<u>\$ 8,000,000</u>	<u>\$ 8,000,000</u>
<u>11,166,000</u>	<u>10,770,000</u>
<u>\$ 19,166,000</u>	<u>\$ 18,770,000</u>

<u>\$ 4,747,000</u>	<u>\$ 4,681,000</u>
<u>3,660,000</u>	<u>2,815,000</u>
<u>\$ 8,407,000</u>	<u>\$ 7,496,000</u>

Canfor Investments Ltd.

NOTES TO FINANCIAL STATEMENTS

December 31, 1978

1. Corporate Relationship

The Company is a subsidiary of Canadian Forest Products Ltd., which company owns all the issued common shares.

2. Accounting Principles

The following accounting principles have been applied:

- (a) The investments in Versatile Cornat Corporation (formerly Cornat Industries Limited) (Note 4), Prince George Pulp and Paper Limited and Intercontinental Pulp Company Ltd. (Note 5) and Yorkshire Trust Company (Note 6) are such that they are appropriately accounted for on the equity basis whereby the Company reflects in its statement of earnings its proportionate share of investee earnings and increases the carrying values of the investments by these amounts. Dividends receivable from these affiliates are accrued as at the dates of record and are deducted from the carrying values of the investments.
- (b) The cost of the investment in Yorkshire Trust Company, acquired in 1976, was \$1,467,000 in excess of the proportionate underlying book values of the assets at the times of acquisition on a shares issued basis (Note 6) and was \$46,000 in excess of the proportionate underlying book values at the time of the additional investment in 1978. Of these amounts \$47,000 is deemed attributable to land and the balance of \$1,466,000 is being amortized over 20 years. At December 31, 1978 the unamortized amount was \$1,283,000. Equity earnings of Yorkshire Trust Company reflected in the statement of earnings and schedule of equity investments are after deduction of amortization.

- (c) The cost of the investment in Versatile Cornat Corporation, acquired in 1975, was \$2,454,000 in excess of the proportionate underlying book values of the assets at the time of acquisition. This amount is attributable to land held by certain of that company's subsidiaries and consequently is not being amortized.
- (d) The investment in shares of Credit Foncier Franco-Canadien is such that it is not appropriate to account for it on the equity basis and it is therefore accounted for on the cost basis whereby the Company recognizes as income only dividends received. (Note 10)
- (e) Interest income is accounted for on the accrual basis.

3. Preference Share Dividend Reserve Fund

Pursuant to the terms of issue of the preference shares, a dividend reserve fund of \$413,000 was created in January, 1976 to provide for payment of dividends to the holders of the preference shares. During the year the fund was used for the payment of preference share dividends of \$275,000 and was subsequently replenished by an equal amount.

4. Versatile Cornat Corporation

The equity in the earnings of Versatile Cornat Corporation has been calculated on a share issue basis in 1978; in prior years the equity in the earnings was calculated on a fully diluted basis. The equity in the earnings for 1977 has not been restated on a share issue basis, but has been adjusted in the 1978 figures as the effect is immaterial.

5. Prince George Pulp and Paper Limited and Intercontinental Pulp Company Ltd.

The principles used by Prince George Pulp and Paper Limited and Intercontinental Pulp Company Ltd. in accounting for foreign currency transactions have been changed in 1978 to follow the new recommendations of the Canadian Institute of Chartered Accountants. This change has been made by the companies on a prospective basis and reduced the Company's equity in the earnings of the companies in 1978 by approximately \$1,068,000 (\$1.05 per common share).

The 1977 earnings of Prince George Pulp and Paper Limited and Intercontinental Pulp Company Ltd. reflected extraordinary income totalling \$2,724,000 of which the Company's equity share amounted to \$1,191,000. This extraordinary income related to the application of prior years' losses against income otherwise taxable and increased earnings per common share by \$1.17.

6. Yorkshire Trust Company

In May, 1978 the Company acquired an additional 5,383 common shares of Yorkshire Trust Company from Columbia Western Management Ltd. Consistent with the method of calculation of the equity in the earnings of Versatile Cornat Corporation, the percentage of outstanding shares held by the Company has been changed from a fully diluted to a share issue basis. The difference in the equity in the earnings resulting from the change is not significant and the 1977 results have not been restated.

continued on page 12...

Canfor Investments Ltd.

7. Share Capital

On or before October 31, 1980 the Company may purchase all or part of the preference shares then outstanding at a price per share not exceeding \$6 and thereafter at the then current redemption price. The Company may redeem the preference shares from October 31, 1980 to October 31, 1985 at prices which range from \$5.50 to \$5.10 per share and at a price of \$5 per share if redeemed after October 31, 1985. In addition, the Company shall purchase, if available, in each year commencing January 1, 1976, up to 25,000 preference shares in the open market at prices not exceeding \$5 per share plus accrued and unpaid dividends and costs of purchases. No shares have been available for purchase at this price since January 1, 1976.

8. Remuneration of Directors and Senior Officers

Directors' fees aggregating \$3,000 were paid in the year (1977 - \$2,750). No other amounts were paid or credited to the directors or senior officers of the Company in the year.

9. Federal Anti-Inflation Legislation

The Company and its affiliates were subject to and complied with the Canadian Government anti-inflation program which expired December 31, 1978.

10. Subsequent Events

- (a) In January, 1979 the Company disposed of its common share investment in Credit Foncier Franco-Canadien at \$140 per share for an amount of \$6,184,780. The disposal of these shares did not impair the asset coverage condition attached to the preference shares.
- (b) In January, 1979 the Company declared and paid dividends totalling \$6.126 per share to the holder of the common shares.

AUDITORS' REPORT

To the Shareholders of
Canfor Investments Ltd.

We have examined the balance sheet of Canfor Investments Ltd. as at December 31, 1978 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Canfor Investments Ltd. and those companies of which we are auditors and which are accounted for by the equity method was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied upon the report of the auditors who have examined the consolidated financial statements of Versatile Cornat Corporation, the investment in which is accounted for by the equity method.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the change by Prince George Pulp and Paper Limited and Intercontinental Pulp Company Ltd. in their method of accounting for foreign currency transactions as explained in Note 5 to the financial statements, have been applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

Vancouver, B.C.
April 9, 1979.



To commemorate the tenth anniversary of Intercontinental Pulp, Canfor presented this Eskimo wall hanging. At the brief ceremony were (left to right): J.G. Prentice, Chairman of Canfor; Peter Bentley, President; L.L.G. Bentley, Vice Chairman; Mark Gunther, President of the Joint Venture companies; and Ron Longstaffe, Executive Vice President of the Canfor Group.



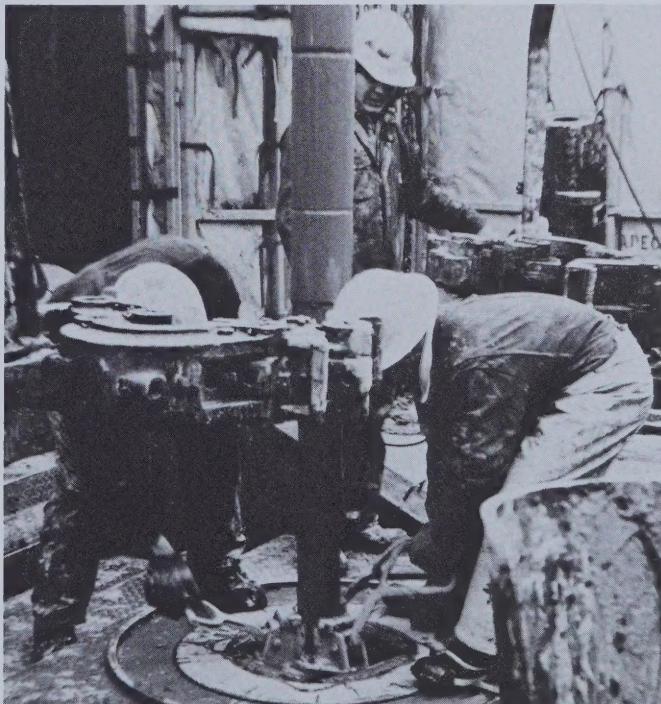
The new Calgary office of Yorkshire Trust flies a pennant in keeping with the aged character of its "heritage building" designation by the City.



The "875" is currently one of the largest and most popular of the tractors produced by Versatile. The company reported record sales in 1978, up 24 per cent from the previous year.



Trimmers monitor the flow of lumber passing into the new \$1.2 million J-Bar sorter at Takla's Fort St. James sawmill.



Bralorne Resources participated in this gas discovery well in West Pembina, Alberta.

